

# Diagnostic Cos Fall on Reliance Life's Proposed Entry

**Our Bureau**

**Mumbai:** Reliance Group's proposed entry into the diagnostic business threatens existing diagnostic players who fear the entry of India's biggest corporate group with deep pockets will squeeze margins.

Shares of Metropolis fell 4% to ₹1,290.35 on Tuesday while Dr Lal Path Labs fell steeply by 6% to ₹1,532. Other listed diagnostic firm Thyrocare Technologies also dropped 6% to close at 535.65. On Monday, these three stocks fell between 1% and 3%.

Reliance Life Sciences, the biotech subsidiary of Reliance Group, plans to start pathology labs across India through partnerships with local entrepreneurs, according to a news report.

"If Reliance seriously enters into diagnostic business, it can create turbulence in the industry," said Ajay Bodke, CEO (PMS), Prabhudas Lilladher. "Reliance, with deep pockets, has a record of bringing scale and lower pricing for customers. It has successfully used this already to disrupt established dynamics in retail and telecom business and its entry into diagnostic sector could seriously dent the profit margins of existing established players."

Shares of Dr Lal Pathlab,

which rallied 69% so far this year, is currently trading at a PE of 48 times its FY20 estimated revenues. Metropolis Healthcare, which listed on April 15, has given a return of 40% since then and is trading at a FY20 estimated PE of 41. Thyrocare declined marginally in 2019 at 23 times FY20 estimated earnings.

"RIL entry into diagnostics could be a threat to the existing players," said Dharmesh Kant, head, retail research, IndiaNivesh Securities. "Diagnostics is a high capex, margin business and for

a company like Reliance, capex is not an issue. There will be a massive consolidation if RIL enters".

Dr Lal Pathlab, Metropolis and Thyrocare had Ebitda margins of 24%, 26% and 39% respectively in FY19. Some say in a country like India, there is enormous space in healthcare sector and entry of bigger player would not impact existing players much.

"Considering under-penetration of healthcare and diagnostics services in India, there remains enormous opportunity for a few players," said Abhishek Sharma, VP, research, IIFL Institutional Equities.

**Sector stocks drop between 1% and 3%. Dr Lal Path Labs and Thyrocare fall steeply**